



Top Glove Corporation Berhad

(7113 | TOPG MK) Main | Health Care | Health Care Equipment & Services

Maintain NEUTRAL

Demand to Grow amid Better Pricing and Sales Order

Revised Target Price: RM0.87
(Previously RM0.84)

KEY INVESTMENT HIGHLIGHTS

- **Better sequential revenue on strong volume sales, losses narrowed in 2QFY24; came in below expectations**
- **1HFY24 a turning point to a significant recovery in sector**
- **ASP and cost mismatch an advantage in near term**
- **Caution remains on raw material prices amid uncertain commodities market**
- **Maintain NEUTRAL with a revised TP of RM0.87**

Maintain NEUTRAL, TP: RM0.87. Top Glove Corporation (Top Glove) reported a 1HFY24 core net loss of -RM68.5m, excluding one-time items of RM13.1m. The 1HFY24 net core earnings came in way below our FY24 forecast, but the improvement aligns with our projection as we now anticipate a positive pick-up in earnings in the coming quarters with the expectation of lower MRP gas prices, higher sales order, and higher ASPs by +5% to +10% coming into 2HFY24. At this juncture, we maintain our **NEUTRAL** call for Top Glove with a revised **target price of RM0.87**, pending any significant uptrend changes in raw material prices and demand recovery. No dividend was declared for the quarter.

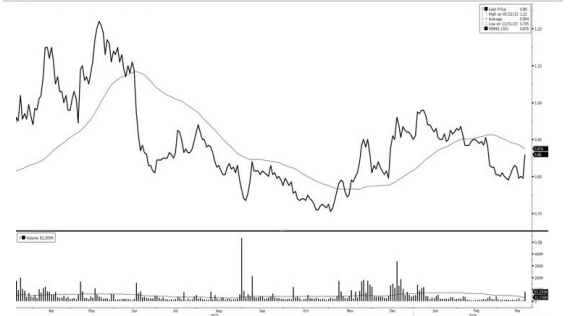
Better revenue in 2QFY24 on strong sales volume. The group's revenue increased by +11.5%qoq to RM550.3m, mainly driven by a higher sales volume (+18%qoq) despite higher raw materials price for natural rubber latex (+15%qoq). This sharp increase caused a mismatch with ASPs, thereby affecting margins. However, the strong growth in sales volume helped increase utilization (+6%qoq), subsequently improving production and cost efficiency, which mitigated the mismatch.

Core net loss narrowed in 2QFY24. The core net loss narrowed from -RM56.1m in 1QFY24 to -RM38.1m, mainly attributed to higher revenue, and improved production and cost efficiency from higher utilization rates. However, the spike in raw material prices caused mismatch of ASPs and costs, in which ASPs declined by -5%qoq. This is mitigated by strong growth in sales for the quarter.

On a yearly basis, core net loss improved from -RM299m in 2QFY23 to -RM94.2m in 2QFY24, driven by cost optimization efforts despite a -16%yoy drop in revenue to RM1.04b. Additionally, the appreciation of USD by +2% and the improvement in cost control contributed to the reduced loss margin in 2QFY24 and 1HFY24.

RETURN STATISTICS	
Price @ 20 th Mar 2024 (RM)	0.84
Expected share price return (%)	+1.2
Expected dividend yield (%)	0.00
Expected total return (%)	+1.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.9	-2.7
3 months	-4.4	-9.4
12 months	-5.0	-13.3

INVESTMENT STATISTICS

FYE AUG (RM'm)	2024F	2025F	2026F
Revenue	3,688	4,327	4,802
EBITDA	412	538	654
Profit before tax (PBT)	64	195	303
Core PATANCI	54	165	252
Core EPS (sen)	0.7	2.1	3.1
DPS (sen)	0.0	0.8	1.3
Dividend Yield (%)	0.0	1.0	1.5


KEY STATISTICS

FBM KLCI	1535.79
Issue shares (m)	8008.16
Estimated free float (%)	41.58
Market capitalizations (RM'm)	6887.07
52-wk price range	RM0.7 - RM1.25
3-mth average daily volume (m)	36.07
3-mth average daily value (RM'm)	33.05
Top Shareholders (%)	
Lim Wee Chai	27.87
Central Depository Pte Ltd/The	9.52
FIRSTWAY UNITED CORP	6.93

1HFY24 a turning point towards recovery. 1QFY24 had seen a notable uptick in sales volume that continued to the reporting quarter 2QFY24 by +18%qoq, indicating a strong demand for glove demand in light of customers returning to replenish depleted stocks. Additionally, ASPs have been adjusted to reflect higher raw materials prices in 2QFY24. ASPs had been seeing smaller selling price gap between Malaysian and foreign glove makers – notably China – from a difference of USD2-3 per 1000 gloves to approximately 60sen per 1000 gloves. We believe this smaller pricing gap, coupled with expected higher utilization rate and higher demand from healthcare service, industrials and F&B sectors, would allow more options to customers to outsource orders to Malaysian manufacturers. With the smaller price gap, Top Glove may be able to leverage on sustainability for customers in consideration of its usage of natural gas as fuel energy, which emits over 50% less than coal and about 75% less than heating and fuel oil.

ASP and cost mismatch an advantage. In the near term, raw materials pricing for Natural Rubber Latex Concentrate expected to peak in Apr CY24 and soften in May CY24, while Nitrile Latex is currently on an uptrend and is expected to soften in Jun CY24. This would indicate that the oversupply of glove in the market had slowly been depleted and demand grew in tandem to the limiting supply. Once the raw material price trends downwards in 2HFY24, we expect that the mismatch of ASPs and raw material cost will be beneficiary to the group. Moreover, the higher utilization rate following the increasing order trend is anticipated to offset the higher production input cost in the near term.

Revised FY24-25 earnings estimates. Despite our optimism to the group's performance in the upcoming quarters, given all the external and internal drivers, in consideration that 2QFY24 earnings are below our projection, we revised our FY24 and FY25 forecast downward by -25% and -24% respectively. Consequently, our new TP to **RM0.87 (previously RM0.84)** is based on a revised BVPS24 of 79.8sen pegged to its 2-year historical -0.5SD P/BV of 1.09x. The revised BVPS is due to increased outstanding shares in 2QFY24, while our higher valuation is taken closest to the recent P/BV in consideration of the increasing demand for gloves. We retain a **NEUTRAL** call for Top Glove, given the anticipation of a small yet positive earnings in the next quarter, albeit improving ASPs and sales volume expected; in addition to the uncertainty on raw material prices for natural rubber and nitrile in the near term.

We reiterate our positive stance on the outlook for improved sales volumes as replenishment activities resume post-inventory depletion, with a subsequently higher utilisation rate. Henry Hub natural gas and Brent oil prices are expected to remain stable in CY24, which would keep MRP prices on a less volatile level. **Potential upside risks are:** (i) higher ASP and sales volume; (ii) fair competition with the Chinese and Indian glovemakers with minimal sell pricing difference for the gloves, (iii) a lower MRP price following the laggard on Brent crude oil averaging at USD83pb (-3%qoq) in 4QCY23, and (iv) favourable regional currency and regulation changes for glove customers. 

Top Glove: 2QFY24 Result Summary

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	550.3	493.5	618.0	(11.0)	11.5	1,043.8	1,250.5	(16.5)
Operating expenses	(609.1)	(553.0)	(785.8)	(22.5)	10.1	(1,162.1)	(1,578.6)	(26.4)
Other operating income	17.2	8.6	20.6	(16.9)	99.3	25.8	27.0	(4.4)
Operating profit (EBIT)	(41.6)	(50.9)	(147.2)	(71.7)	(18.3)	(92.5)	(301.1)	(69.3)
Net finance income/(cost)	(0.1)	(1.4)	1.5	(108.4)	(90.5)	(1.5)	3.9	(137.9)
Profit before tax (PBT)	(43.1)	(52.9)	(145.9)	(70.5)	(18.5)	(95.9)	(297.6)	(67.8)
Taxation	2.9	5.7	(9.0)	(132.5)	(48.3)	8.6	(15.0)	(157.4)
Profit After tax (PAT)	(40.1)	(47.2)	(155.0)	(74.1)	(15.0)	(87.3)	(312.6)	(72.1)
PATANCI	(51.2)	(57.7)	(164.7)	(68.9)	(11.3)	(108.9)	(332.9)	(67.3)
Core PATANCI	(38.1)	(56.1)	(167.7)	(77.3)	(32.0)	(94.2)	(299.0)	(68.5)
Core EPS (sen)	(0.5)	(0.7)	(2.1)	(77.8)	(33.6)	(1.2)	(3.7)	(68.8)
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Growth & Margin (%)				+ /(-) ppts	+ /(-) ppts			+ /(-) ppts
Operating Profit Margin	(7.6)	(10.3)	(23.8)	16.3	2.8	(8.9)	(24.1)	15.2
PBT Margin	(7.8)	(10.7)	(23.6)	15.8	2.9	(9.2)	(23.8)	14.6
Core PATANCI Margin	(6.9)	(11.4)	(27.1)	20.2	4.4	(9.0)	(23.9)	14.9
Ratios & Valuation				+ /(-) ppts	+ /(-) ppts			+ /(-) ppts
Net debt/total equity (%)	0.1	0.1	0.1	(0.0)	(0.0)	0.1	0.1	(0.0)
Effective tax rate (%)	6.8	10.7	(6.2)	13.0	(3.9)	9.0	(5.0)	14.0

Source: Company, MIDFR

Top Glove: Geographical Breakdown

FYE Aug (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue (External):								
Malaysia	524.2	437.2	565.1	(7.2)	19.9	961.4	1,113.5	(13.7)
Thailand	172.4	29.3	26.1	561.4	489.1	201.6	67.9	196.8
China	2.7	2.6	1.5	81.3	3.9	5.3	4.9	6.9
Others	28.7	24.4	25.3	13.4	17.6	53.1	64.2	(17.2)
Total	728.0	493.5	618.0	17.8	47.5	1,221.5	1,250.5	(2.3)
Operating Profit/(Loss):								
Malaysia	(36.3)	(38.7)	(235.5)	(84.6)	(6.2)	(75.1)	(354.8)	(78.8)
Thailand	0.2	(3.7)	(26.5)	(100.9)	(106.2)	(3.5)	(34.8)	(90.0)
China	(0.9)	(0.7)	(3.1)	(71.1)	29.0	(1.6)	(4.8)	(66.9)
Others	(1.5)	(5.8)	(27.4)	(94.4)	(73.6)	(7.4)	(47.7)	(84.6)
Total	(38.5)	(49.0)	(292.4)	(86.8)	(21.3)	(87.5)	(442.1)	(80.2)
Operating profit/ (Loss) margin:								
Malaysia	(6.9)	(8.9)	(41.7)	34.7	1.9	(7.8)	(31.9)	24.1
Thailand	0.1	(12.7)	(101.6)	101.7	12.8	(1.7)	(51.2)	49.5
China	(33.1)	(26.6)	(207.7)	174.6	(6.4)	(29.9)	(96.5)	66.6
Others	(5.3)	(23.8)	(108.2)	102.8	18.5	(13.8)	(74.4)	60.6
Total	(5.3)	(9.9)	(47.3)	42.0	4.6	(7.2)	(35.4)	28.2

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	5,572.3	2,257.2	3,688.2	4,326.9	4,801.5
Gross Profit	953.4	64.3	355.0	352.0	434.5
EBITDA	690.4	(968.8)	411.8	538.1	653.7
EBIT	342.2	(899.2)	66.8	185.5	293.5
Net finance (expenses)/income	19.9	4.6	(3.0)	9.1	8.9
Profit before tax (PBT)	358.4	(900.4)	63.8	194.7	302.5
Income tax expense	(76.8)	14.9	(9.5)	(30.1)	(50.8)
Profit After tax (PAT)	281.6	(885.5)	54.3	164.5	251.7
PATANCI	225.6	(925.2)	54.3	164.5	251.7
Core PATANCI	493.2	(526.2)	54.3	164.5	251.7
Core EPS (sen)	6.2	(6.6)	0.7	2.1	3.1
DPS (sen)	1.2	0.0	0.0	0.8	1.3
BVPS (sen)	84.8	74.0	79.8	85.7	88.1
Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	4,522.2	3,893.1	4,022.8	4,102.2	4,221.4
Intangible assets	1,005.3	864.5	975.9	1,044.1	1,042.7
Total Non-current assets	6,005.6	5,373.5	5,598.8	5,770.5	5,913.2
Inventories	575.3	301.5	697.9	864.3	949.5
ST - Trade and other receivables	258.8	182.6	367.0	436.2	484.1
Cash and cash equivalents	950.9	948.5	1,104.4	1,168.4	1,167.0
Total current assets	2,111.1	1,688.0	2,577.1	2,928.6	3,085.1
Total Assets	8,116.7	7,061.6	8,175.9	8,699.1	8,998.3
Total Equity	6,793.2	5,926.1	6,551.3	6,865.2	7,055.9
LT Loans and borrowings	93.0	14.1	14.3	14.4	14.6
Total Non-current liabilities	327.0	211.6	313.4	353.6	373.6
ST Trade and other payables	459.4	265.3	592.3	733.5	805.9
ST Loans and borrowings	306.1	540.4	545.8	551.2	556.7
Total Current Liabilities	996.5	923.9	1,311.2	1,480.3	1,568.8
Total Liabilities	1,323.5	1,135.5	1,624.6	1,833.9	1,942.4
Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	358.4	(900.4)	63.8	194.7	302.5
Cash flow from operations	178.8	121.0	157.6	450.9	620.8
Cash flow from investing	132.4	(383.3)	(358.0)	(431.9)	(481.2)
Cash flow from financing	(740.3)	94.8	272.2	123.1	(28.3)
Net cash flow	(429.1)	(167.5)	71.7	142.2	111.3
(+/-) Adjustments	(12.6)	14.0	0.0	0.0	0.0
Net cash/(debt) b/f	875.2	433.4	280.0	351.7	493.9
Net cash/(debt) c/f	433.4	280.0	351.7	493.9	605.2
Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	21.4	1.7	14.8	15.5	16.8
Dividend Yield (%)	1.3	0.0	0.0	1.0	1.5
PER (x)	32.1	7.8	126.8	41.9	27.4
Net Cash/Market Capitalisation (%)	7.6	5.4	7.2	8.8	8.6
Cash/share (sen)	0.0	0.0	0.0	0.1	0.1
Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	17.1	2.8	9.6	8.1	9.0
EBITDA Margin (%)	12.4	(42.9)	11.2	12.4	13.6
EBIT Margin (%)	6.1	(39.8)	1.8	4.3	6.1
Core PATANCI Margin (%)	8.9	(23.3)	1.5	3.8	5.2

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology